Redevelopment Housing Activities

Fiscal Year 2001-2002

Department of Housing and Community Development

State of California

Arnold Schwarzenegger, Governor

Sunne Wright McPeak, Secretary,

Business, Transportation and Housing

Matthew O. Franklin, Director, HCD

California Redevelopment Agency Housing Activities During Fiscal Year 2001-2002

STATE OF CALIFORNIA
Arnold Schwarzenegger, Governor

Business, Transportation and Housing Agency
Sunne Wright McPeak, Secretary

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December 2003

FOREWORD

This is the eighteenth year the State Department of Housing and Community Development (HCD) has reported on redevelopment agencies' housing activities. Redevelopment Law (Health and Safety Code, Section 33080) requires HCD to report on agencies' use of their Low and Moderate Income Housing Fund to increase, improve, and preserve the community's supply of affordable housing. California currently has 413 redevelopment agencies (refer to Appendix A) of which 385 are active. Inactive agencies did not deposit any revenue and did not spend any funds over the reporting period. Some agencies are "inactive" because of being newly formed; others have been inactive for several years.

California's Affordable Housing Crisis and Role of Redevelopment Agencies

California's affordable housing crisis has worsened. Housing production has not kept up with demand, household overcrowding has increased, and the cost of shelter has become more of a burden to many more households. Although mortgage rates declined to lows near rates in the early 1960s, statewide housing prices and rents increased far more than household incomes.

Community redevelopment agencies play a vital role with local government and private industry. Agencies' Low and Moderate Income Housing Funds (Low-Mod Funds) have long been the largest source of funds steadily available to encourage the production of more affordable housing. To better address California's continuing affordable housing needs, more effective participation of all levels of government and the private sector is needed.

Redevelopment Law and Agencies' Reporting Requirements

Community Redevelopment Law is contained within Health and Safety Code (H&SC) Section 33000-34160. A copy is available on the California Senate Internet Site (http://www.sen.ca.gov/). H&SC Section 33080 requires agencies, within six months after the end of each fiscal year, to submit to the State Controller's Office (SCO) annual reports required by both the SCO and HCD. Agency reporting requirements are set forth in H&SC Sections 33080, 33444, and 33615.

Agencies must report Low-Mod Fund deposits, revenues, expenditures, and balances to HCD. Regarding housing activities, agencies must report, by project area, specified data on households assisted such as the number of elderly and non-elderly and the income level of the household. Pursuant to H&SC Section 33080.6, HCD is required to compile agency data and publish an annual report on redevelopment agency housing activities.

Data Reporting Problems

Although agency reporting problems concerning accuracy, consistency, and timeliness have improved, HCD continues to assist many agencies while preparing their reports, and must contact many agencies to clarify and correct submitted data. For example, some agencies report different amounts of total fund equity to HCD and to the State Controller. Agencies sometimes report amounts for land holdings in one section but do not report sites being held for future construction in another section to support the amount claimed as land holdings. This reporting year, two agencies (Chowchilla and Marina) failed to comply with the statutory requirement to report within six months of the close of the fiscal year.

Thorough, accurate, and timely reporting are critical. Agency reported data are used to determine and analyze important trends regarding agencies' use of housing funds, households and persons benefiting from agencies' housing activities and assistance, and the overall effectiveness of redevelopment law. Some inaccuracies and inconsistencies arise due to agencies' differing interpretations of certain provisions of redevelopment law and various methods of reporting housing revenues, expenditures, and activities.

Three years ago, HCD implemented an electronic on-line reporting system to facilitate agency efforts to accurately and timely report data. For this reporting year, the system was reformatted and made more "user friendly". As a result of improvements, 135 agencies (nearly one-third of all agencies) used the on-line system to electronically file their report. HCD will continue to improve its electronic reporting system and encourage agencies to report on-line to help make annual reporting easier, faster, and more accurate.

HCD Audits

HCD began auditing redevelopment agencies in 1998. The audits focus on agency practices and compliance with redevelopment law to enable agency management and public policy makers to identify options and strategies to improve agency effectiveness. Issues identified in audits are ones often discussed among persons interested in enacting changes in redevelopment law to improve agency practices. For example, audits have revealed some agencies not setting aside the required minimum amount of tax increment, spending a high percentage of revenues on planning and administration, incorrectly calculating agency affordable housing production or inclusionary obligations, and incorrectly reporting Excess Surplus. Resolution of some audits have resulted in agencies committing to repay several million dollars to the Low-Mod Fund and changing their practices to comply with applicable provisions of redevelopment law.

Recent Changes to Redevelopment Law

Two major bills were approved in 2001 amending redevelopment law effective January 1, 2002 (Senate Bill 211, Torlakson and Assembly Bill 637, Lowenthal). Both bills resulted from compromises reached among members of a legislative working group that included persons representing Senator Torlakson, Assemblyman Lowenthal, California Redevelopment Association, Department of Housing and Community Development, affordable housing advocacy groups, nonprofit housing developers, and consultants to redevelopment agencies.

Senate Bill 211 provides a 10-year extension of time to agencies with pre-1994 project areas set to expire beginning 2004. The bill enables qualified agencies to extend redevelopment plans to incur additional debt and continue to receive tax increment in exchange for increasing the minimum tax increment deposit to the housing fund from 20 to 30 percent. To extend the life of project areas, agencies must meet the following requirements:

- the agency's jurisdiction must have adopted a housing element that complies with State law.
- an agency can not have been found to have committed a major violation of redevelopment law and must not have accumulated Excess Surplus;
- Low-Mod Fund minimum set-aside percentage must be increased from 20 to 30 percent;
- based on 30 percent increased set-aside, agencies can not defer more than 10 percent; and
- restrict spending to assist moderate-income households to not exceed 15 percent of deposits.

Assembly Bill 637 extended, by four years, the January 1, 2002 sunset date for provisions made temporary in 1994 by Assembly Bill 1290 (Isenberg, 1993). These temporary provisions relate to agencies' responsibilities to replace affordable units that have been destroyed and also to ensure that a specified percentage of project area housing units are affordable.

Certain amendments in both bills impact all agencies whereas other changes take effect only when agencies implement specific provisions such as extending time limits for pre-1994 project area plans. In general, the major changes impacting all agencies are:

- the temporary Section 33413 provisions applicable to meeting agencies' affordable housing inclusionary or production requirements set to expire January 1, 2002 were extended until 2006;
- non-agency assisted substantial rehabilitation of dwelling units no longer trigger the inclusionary provision requiring agencies to ensure a specified percentage of such units are affordable to low and moderate income households;
- affordability restrictions were lengthened to be at least 45 years for owner-occupied units and 55 years for rental units;
- housing funds are not to be used when other funding sources are available;
- housing funds, over the duration of the housing implementation plan, must be proportionately spent to ensure very-low and low income households and families with children are assisted;
- affordable housing obligations must be met before the expiration of the project area redevelopment plan and also before agency dissolution; and
- the replacement requirement for units to be affordable to the same income category of displaced households changed from 75 to 100 percent.

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Exhibits and Appendices (continued)

CALIFORNIA REDEVELOPMENT AGENCIES' HOUSING FUNDS AND ACTIVITIES

Fiscal Year 2001-2002

EXECUTIVE SUMMARY

The data compiled and reported by HCD on redevelopment agencies' housing funds, activities, and assistance provides comprehensive and objective data concerning redevelopment agencies' use of their Low and Moderate Income Housing Fund (Low-Mod Fund). Agency reported data can be used to determine compliance with provisions of redevelopment law (Health and Safety Code, Section 33000, et.seq.), evaluate the effectiveness of agencies' use of Low-Mod Funds, and assess the extent to which agencies' programs, projects, and assistance help to increase, improve, and preserve the supply of low and moderate-income housing.

For Fiscal Year 2001-2002, agencies reported a 4.5 percent increase in deposits of $834 million to the Low-Mod Fund and spent $712 million representing an increase of 2.4 percent from last year. Agencies reported total fund equity of more than $1.9 billion. Agencies' Low-Mod Funds continue to comprise the largest single source of funds available for the development, improvement, and maintenance of affordable housing. As a result, agencies have a critical role in responding to California's worsening housing crisis.

Based on information agencies reported at the end of Fiscal Year 2001-2002, this report discusses certain trends regarding the amount and use of agency funds and the results of agency housing activities. Incomplete or inaccurate reporting continues to hinder efforts to evaluate agencies' compliance with redevelopment law and agencies' housing programs and projects. Concerns are discussed in detail at the front of various exhibits displaying specific financial and housing activity data.

Highlights of redevelopment agencies' FY 2001-2002 use of funds and housing activities and assistance are provided on the following page. A full summarization of agency data, reported in Exhibits A-M, are in the body of the report that follows.

HIGHLIGHTS - HOUSING FUND

- *Agencies **deposited $834 million** to the housing fund, **an increase of $36 million** (4.5 percent) compared to the previous year.*

- *Agencies **spent $712 million** of housing funds, **$17 million** (2.4 percent) more than last year.*

- ***Total Fund Equity exceeded $1.9 billion** at the end of Fiscal Year 2001-2002.*

- ***The statewide Unencumbered Balance reported at year end was $832 million** which represents the amount available for future housing activities. Of this unencumbered amount, agencies reported **$273 million as designated** for use in the near term, leaving **$559 million as undesignated** and immediately available for housing activities.*

- *Six agencies **exempted $13.7 million** of tax increment from deposit to their housing fund.*

- *Eleven agencies **deferred $4.9 million** of tax increment that must be repaid to the Low and Moderate Income Housing Fund. Fifteen agencies **repaid $2.7 million for deferrals** taken in previous years. The housing funds' accumulated **deferral balance represents $178 million**.*

- *Over **$66 million was reported as Excess Surplus** by 46 agencies compared to $4.5 million reported in FY 2000-2001 by 9 agencies. Redevelopment law specifies that Excess Surplus occurs when the unencumbered balance exceeds the greater of $1 million <u>or</u> the combined amount of tax increment deposited over the preceding four fiscal years. To avoid penalty, agencies must either transfer their Excess Surplus to the local housing authority within one year or spend or encumber all Excess Surplus within two additional years.*

HIGHLIGHTS - HOUSING ACTIVITIES

- *Agencies **assisted 19,422 households.** Assistance to elderly households totaled 7,043 and non-elderly households totaled 12,379. Agencies used Low-Mod Funds to assist the following households: **9,685 very-low (50%); 6,023 low (31%), and 2,763 moderate (14%).** Agencies used funds other than the Low-Mod Fund to assist **951 above-moderate (5%) households**.*

- *Agencies reported **4,908 units with affordability restrictions to fulfill the "inclusionary" requirement:** 2,760 units were reported as new construction, 1,487 represent rehabilitations and 661 represent acquisition of long term affordability covenants on multi-family units.*

- *Low-Mod Funds assisted in the **replacement of 2,130 units** that were counted toward agencies' obligations to replace units destroyed over the last four years.*

- *Agencies reported **other activities** (other than inclusionary or replacement activities) that **assisted in constructing 2,256 units; rehabilitating 3,960 units; subsidizing 954 households and providing several other kinds of assistance benefiting an additional 5,214 households.***

- *Thirty-five agencies reported **494 units were destroyed** in FY 2001-2002, and thirty-five agencies reported **573 units need to be replaced**. Seven agencies displaced a total of 32 households in the current year and for next year thirty-six agencies estimate displacing 711 households.*

Redevelopment Agency Activities - Fiscal Year 2001-2002

The first part of this report discusses the financial status of agencies' Low-Mod Funds at the end of Fiscal Year 2001-2002. The second part discusses agencies' housing production and assistance activities over the reporting year and agency housing production expectations to occur within the next two years. The financial section reports on funds specific to the Low-Mod Fund based on data displayed in Exhibits A through D. The housing section describes activities based on data contained in Exhibits E through M. Exhibit data reflects applicable information reported by most but not all agencies. Agencies not appearing in particular exhibits may not have had any activity to report or may not have been active over the reporting year. Inactive agencies are ones that did not receive or spend housing funds over the reporting year. For example, a new agency with one project area that did not generate any receipts over the reporting year will not be listed in Exhibit A1 "Project Area Contribution to Low and Moderate Income Housing Fund" but would be listed in Exhibit C1 "Status of Low and Moderate Income Housing Fund," if the agency borrowed and spent funds.

Agencies are required to annually report to HCD within six months after the end of the fiscal year. They can report either electronically or by completing paper forms (Schedules A-E) and mailing to HCD (refer to Appendix B for a copy of each form).

HOUSING FUNDS

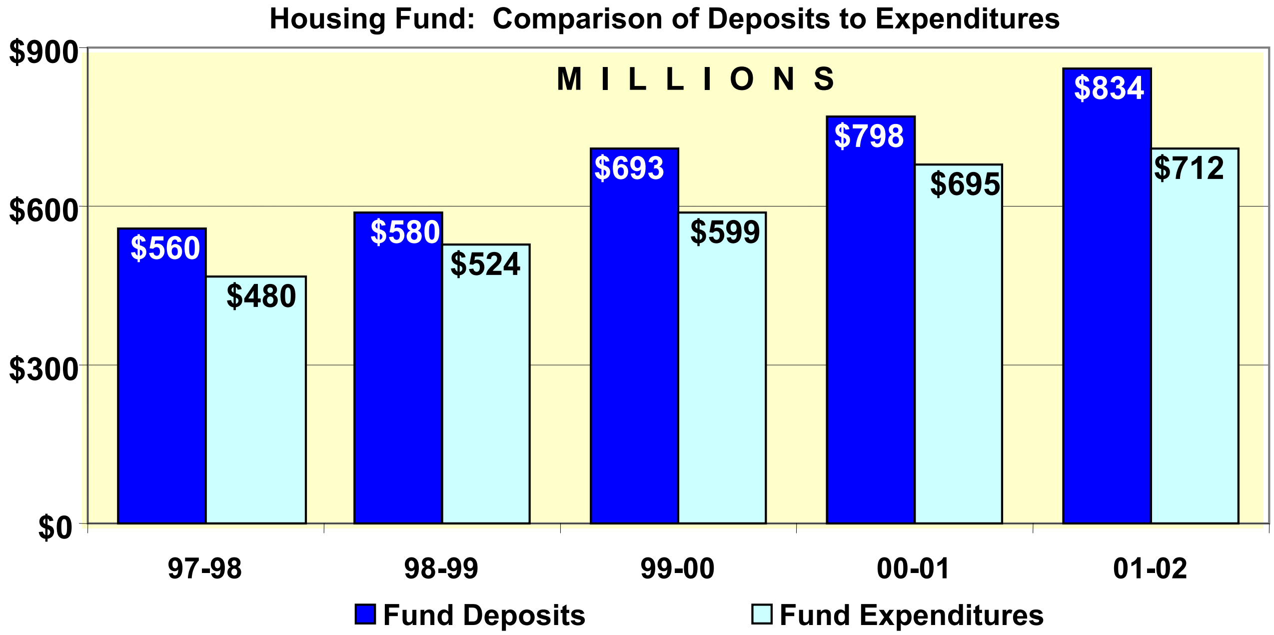
This part reports on the statewide sources and uses of agencies' Low-Mod Funds. Amounts specific to redevelopment project areas are reported in Exhibits A-1 and A-2. Low-Mod Fund data (such as total revenues, expenditures, assets, and fund balances, etc.) are reported in Exhibits C-1 through C-8. Within this summary, amounts reported have been rounded.

Sources of Housing Funds (Exhibits A-1, A-2, and C-1)

For Fiscal Year 2001-2002, agencies deposited $834 million to the Low-Mod Fund (Exhibit C-1), $36 million more than the prior year. Deposits consisted of more than $767 million of project area receipts and nearly $67 million of Low-Mod Fund (non-project area) revenues such as from bond proceeds and transfer amounts. Sources of project area receipts (Exhibit A-1) consist of $497 million in tax increment deposits, $2.7 million in repayments of tax increment deferred in past years, and $267 million of additional income (Exhibit A-2). Additional income includes $78 million in debt proceeds, $44 million of interest income, $40 million from loan repayments, $13 million from sales of real estate, $11 million from rents and leases, $1.5 million from grants, 61 thousand received in fees for redevelopment agency administration of bonds, and $79 million reported as other income from various sources other than those identified above.

<u>Low-Mod Fund Comparison of Deposits to Expenditures</u> (Exhibit C-1)

As shown in the Chart below, reporting year deposits exceeded expenditures by $122 million. For all five years, agencies' deposits have annually increased as have expenditures.



<u>Tax Increment Exemptions and Deferrals</u> (Exhibits A-1, B-1, B-2, and C-2)

<u>Exemptions</u>
Exemptions refer to tax increment that, pursuant to H&SC Section 33334.2(a), agencies are allowed to <u>excuse from deposit</u> to the Low-Mod Fund under specific conditions. Before taking an exemption, the jurisdiction must have an adopted housing element that HCD determined complies with State housing element law. Also, agencies must annually adopt a resolution making one of the following findings:

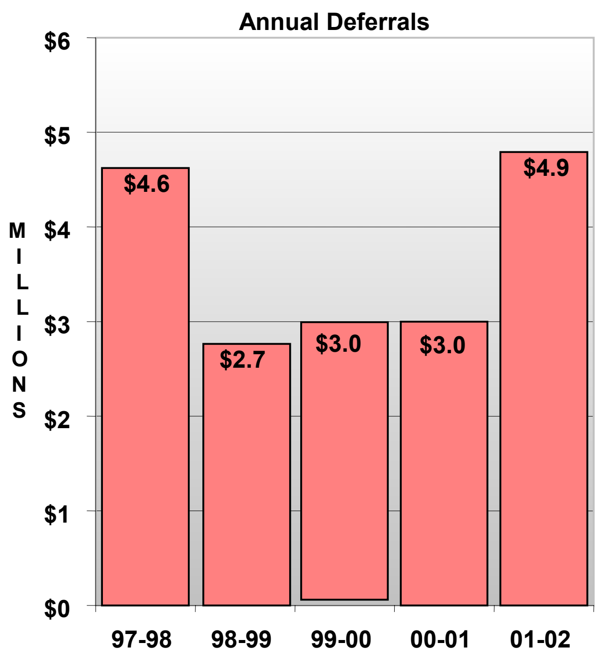
- The community has no need to increase, improve or preserve the supply of affordable housing
- Less than the required minimum (20%) set-aside is sufficient to meet the community's need
- Obligations incurred before May 1991 are being met as the community is making a substantial effort to meet its affordable housing need that is equivalent in value to the set-aside amount.

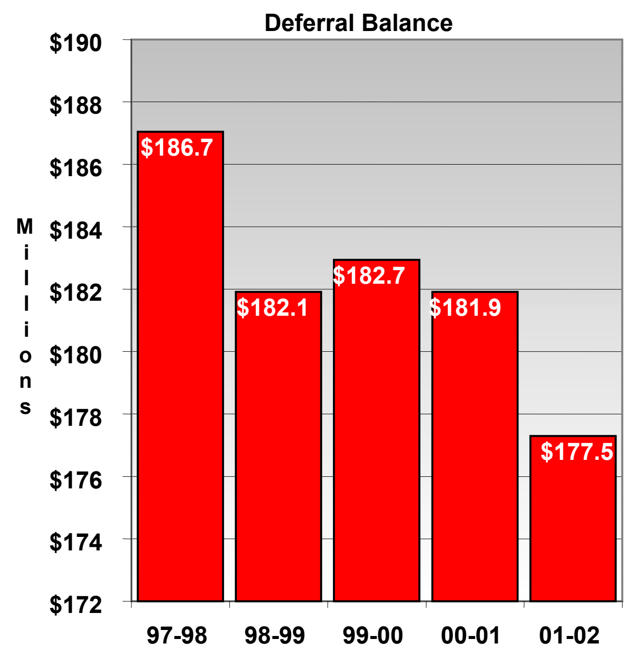
Exhibit B-1 identifies six agencies (Brea, Crescent City, Industry, Needles, Paramount, and Rosemead) that exempted $13.7 million from deposit to their Low-Mod Fund. For the prior year, four agencies, which include four of the six listed above, exempted $11.7 million from deposit. For the current reporting year, the localities of all six agencies met the requirement of first adopting a compliant housing element before taking an exemption. All six agencies also reported making a required finding and adopting a required resolution. Agencies' findings and resolutions are required to be submitted to HCD but, unlike jurisdictions' housing elements, are not required to be reviewed for a determination of compliance.

<u>Deferrals</u>
Deferrals are housing fund set aside amounts that redevelopment law permits agencies to <u>defer from deposit</u> to cover specific obligations. Deferrals of tax increment reported in Exhibit B-2 constitute a debt to the Low-Mod Fund and agencies are required to develop repayment plans. Deferrals are treated

as long-term receivables reported as Additional Assets (Exhibit C-2). The total amount of agencies' deferrals is $178 million which approximates 22% of total housing fund assets of $804 million.

During FY 2001-2002, 11 agencies deferred $4.9 million whereas 15 other agencies repaid a portion of prior year deferrals totaling $2.7 million. The graph below on the left shows deferrals this reporting year of $4.9 million, an increase of $1.9 million compared to last reporting year. The graph on the right shows a significant deferral balance of $177.5 million is still owed to the Low-Mod Fund.





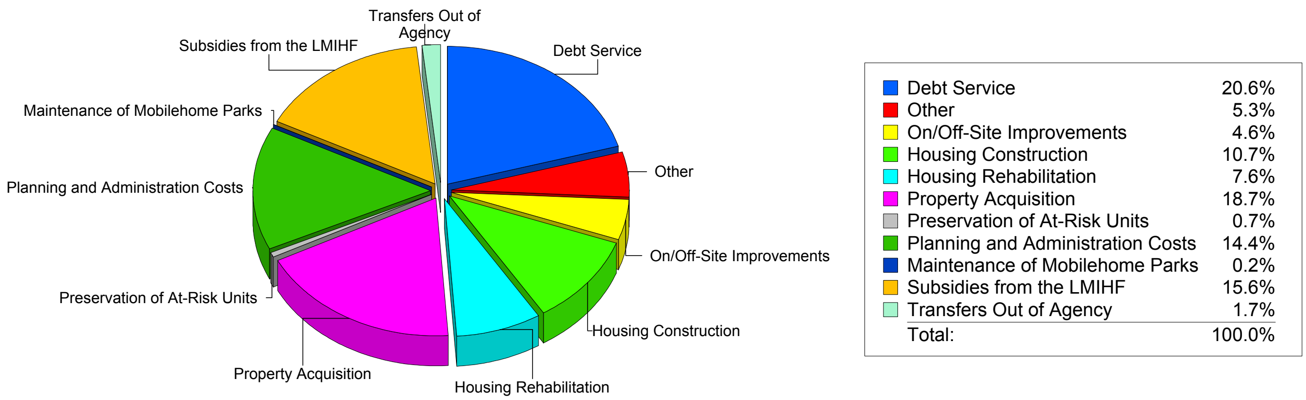
<u>Uses of Housing Funds</u> (Exhibits C-1 through C-8)

Agencies reported total expenditures of $712 million for FY 2001-2002 which are 2.4 percent higher than the previous year. Agencies report expenditures by categories and therefore do not indicate how much is spent to assist households of various income levels. However, some inferences can be made about agencies' use of housing funds to assist households of various income levels based on housing assistance described in the Housing Activities section of this report. For example, agencies reported assisting a total of 19,422 households, 16,952 (87 percent) from the Low-Mod Fund. Non-elderly households comprised 64 percent of total households assisted. By income category, agencies reported using their Low-Mod Fund to assist 50 percent very-low; 31 percent low; and 14 percent moderate income households; and using funds other than the Low-Mod Fund to assist 5 percent above-moderate income households.

Housing fund expenditures are broken out into eleven major categories. Debt service and related other ($184 million, Exhibit C-5) represents the largest category (nearly 26%) due to deposits of bond proceeds in earlier years. Property acquisition ($133 million, Exhibit C-3), approximating 19 percent, makes up the second largest expenditure category.

The chart below depicts the percentage that each major category comprises of the $712 million of Low-Mod Fund (LMIHF) expenditures. Some categories consist of several related expenditures that agencies report on HCD Form Schedule C (see Appendix B). For example, Property Acquisition includes nine items such as costs for relocation, site clearance, and disposal, etc.

Fiscal Year 2001-2002 Uses of Housing Funds



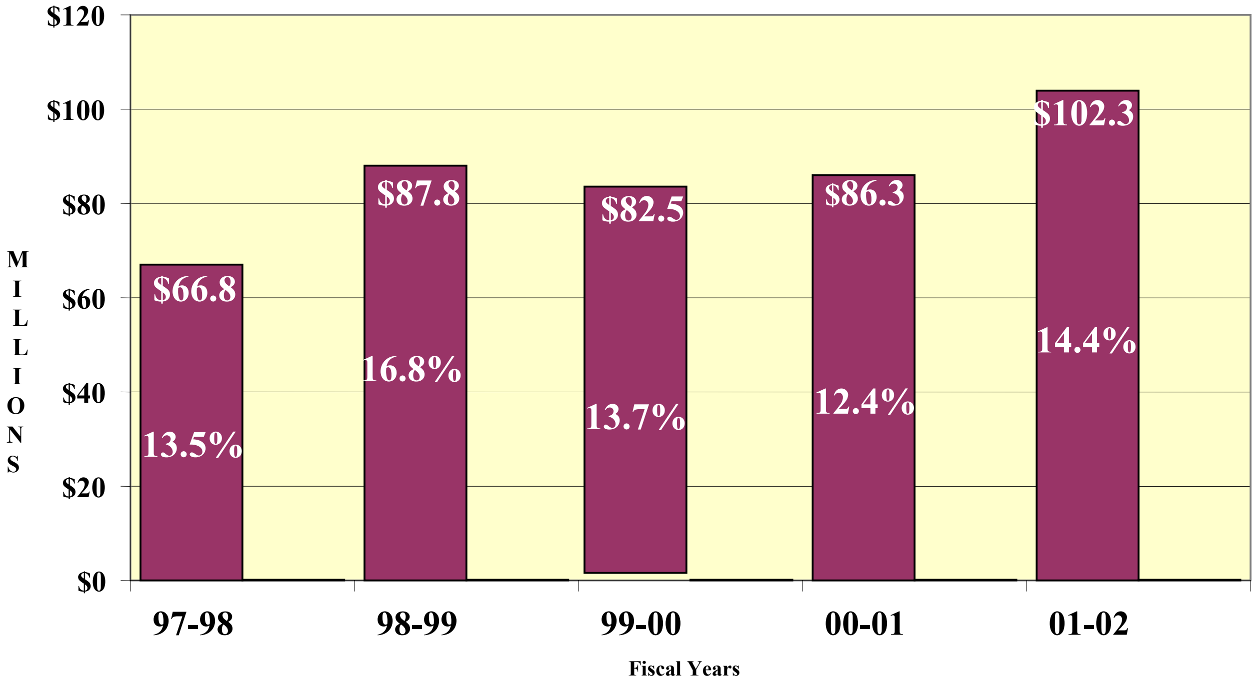
Debt Service	**146,809,154**
Other	**37,625,083**
On/Off-Site Improvements	**32,467,906**
Housing Construction	**75,893,199**
Housing Rehabilitation	**54,375,309**
Property Acquisition	**133,007,707**
Preservation of At-Risk Units	**4,637,940**
Planning and Administration Costs	**102,394,540**
Maintenance of Mobilehome Parks	**1,143,852**
Subsidies from the LMIHF	**111,230,650**
Transfers Out of Agency	**12,400,499**
Total Expenditures:	**711,985,839**

<u>Planning and Administration Costs</u> (Exhibits C-7 and C-8)

Agencies reported FY 2001-2002 planning and administration costs of $102 million, approximately $16 million more than the $86 million reported the prior year. Planning and administration costs represent 14.4 percent of total expenditures, a 2 percent increase compared to the previous reporting year.

Exhibit C-7 shows amounts agencies spent on such categories as administration; planning, survey, and design; and professional services. For FY 2001-2002, Exhibit C-8 shows that 26 agencies reported planning and administration costs comprising 100 percent of total expenditures, compared to 31 that reported doing so the prior year. This year 61 agencies reported spending above 50 percent, 5 agencies less than last year. Planning and administration charges over the past five years, and the percentage relative to total expenditures, are presented below.

Comparison of Annual Planning and Administration Costs



Percentage Reflects Comparison of Costs to Total Expenses

Redevelopment law specifies that agencies' planning and administration charges should "not be disproportionate to the amount actually spent" on affordable housing. Agencies are required to make an annual determination that planning and administration charges are "necessary for the production, improvement, or preservation" of affordable housing. Based on several agency audits the department has conducted since 1998, some agencies neglect to make the required annual determination and finding that planning and administration charges are not disproportionate to the amount of Low-Mod Funds spent on affordable housing projects over the reporting year.

Reasons for disproportionate planning and administration costs vary among agencies due to changes in revenue, staff, and, more particularly, the number, size, and development timeframes of projects. The table below reports the only four agencies that reported planning and administration costs of more than 50 percent for the last consecutive four years.

Planning and Administration Costs as a Share of Total Expenditures

AGENCY	FY 2001-2002		FY 2000-2001		FY 1999-2000		FY 1998-1999	
COVINA	$477,065	61%	$481,034	62%	$592,963	68%	$589,431	66%
HERCULES	$769,365	100%	$200,166	100%	$163,560	100%	$1,231,558	91%
MONTEREY PARK	$113,5650	89%	$1,046,328	93%	$1,011,391	81%	$999,716	58%
RIO VISTA	$61,746	97%	$56,561	100%	$46,383	100%	$54,336	100%

<u>Status of Housing Funds and Assets</u> (Exhibits C-1 and C-2)

At the beginning of Fiscal Year 2001-2002, the Low-Mod Fund's statewide Adjusted Beginning Balance was $981 million, $93 million more than the year before. Agencies ended the reporting year with $1.1 billion Net Resources Available, an increase of more than $113 million compared to the previous year. The amount representing Net Resources Available is determined by adding the Adjusted Beginning Balance ($981 million) to Project Area Receipts ($767 million) and to Housing Fund Revenues ($67 million) and subtracting Total Expenses ($712 million).

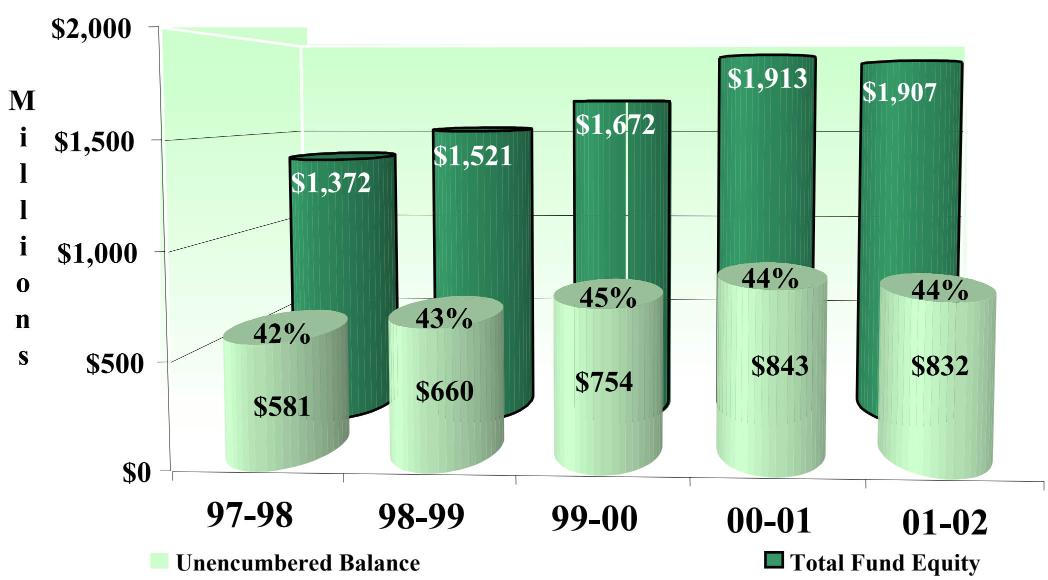
Agencies reported Total Fund Equity of more than $1.9 billion that is $5.2 million less than the amount reported the year before. Total Fund Equity represents the sum of Net Resources Available ($1.1 billion) and Housing Fund Assets ($804 million). Housing Fund Assets (Exhibit C-2) consist of $397 million in receivable loans (made up of Housing Loans, Residual Receipt Loans, and ERAF), $189 million in land holdings, $178 million in accrued deferrals, and $41 million in other assets. All these assets are considered long-term receivables not immediately available to assist with housing activities.

<u>Funds Available for Future Housing Activities</u> (Exhibit C-1)

Of the $1.1 billion agencies reported as Net Resources Available, $271 million was reported as encumbrances which are funds agencies have committed to cover executed agreements and contracts. This leaves $832 million as the Unencumbered Balance. From this amount, agencies then report unencumbered funds tentatively designated for specific purposes and the undesignated amount agencies have not yet planned or budgeted for expenditure. At the end of the reporting year, agencies reported designating $273 million for specific activities in the near term. The approximate $559 million remaining represents funds both unencumbered and undesignated that are considered to be immediately available to spend on housing activities.

The chart below shows the unencumbered balance decreased slightly compared to last fiscal year, breaking the steady trend of increases over the previous four years. One reason that agencies' unencumbered balances hover over 40 percent of total fund equity may be the necessity to save funds over multiple years for large or difficult projects. Another reason could be due to agencies not fully spending deposited debt proceeds.

Comparison of Total Fund Equity and Unencumbered Balance



This reporting year, 176 redevelopment agencies reported an unencumbered balance over $1 million, whereas 180 agencies did so the year before. Of the 176 agencies identified this year, 142 reported an unencumbered balance between $1 and $5 million; 12 reported between $5 and $10 million, and 22 ended the year with an unencumbered balance more than $10 million. The sum of these 22 agencies' unencumbered balance is approximately $348 million, 42 percent of the statewide Unencumbered Balance of $832 million.

The table below identifies the 22 agencies that ended the reporting year with an Unencumbered Balance over $10 million and their unencumbered balances for the two previous years. Also shown is the percent of FY 2001-2002 revenue that each agency spent. This data demonstrates that agencies can both spend a high percentage of total annual revenue and still end the year reporting a high Unencumbered Balance. This can occur from agencies carrying over a prior year's balance and also from not spending debt proceeds. The percentages in the table below compare annual expenditures against annual revenues. For all three years, only four agencies (Carson, Fremont, Orange County, and Palm Desert) stand out as consistently spending less than 75 percent of annual revenues.

	AGENCY	Unencumbered Balance Millions	*Percent of Revenues Spent*	Unencumbered Balance Millions	*Percent of Revenues Spent*	Unencumbered Balance Millions	*Percent of Revenues Spent*
		FY 2001-02		FY 2000-01		FY 1999-00	
1	BURBANK	$15.7	65%	$14.5	52%	$13.3	* 102%
2	CARSON	$11.4	52%	$16.5	48%	$14.7	26%
3	FONTANA	$12	51%	$8	82%	$7	59%
4	FREMONT	$13.8	40%	$10.4	40%	$7.3	70%
5	INGLEWOOD	$20.6	92%	$21.0	16%	$18.2	26%
6	IRWINDALE	$25.8	101%	$26.8	53%	$24.9	44%
7	LOS ANGELES CITY	$40	52%	$10.9	57%	$14.6	90%
8	OAKLAND	$16	183%	$38	148%	$47	10%
9	ONTARIO	$11.9	32%	$10.5	56%	$7.7	* 122%
10	ORANGE COUNTY	$13	25%	$10.6	52%	$8.8	62%
11	PALM DESERT RDA	$11.8	64%	$1.2	43%	$1.6	72%
12	RIVERSIDE CO RDA	$10.1	125%	$8.4	174%	$6.9	178%
13	SACRAMENTO CITY	$21.6	86%	$20.6	*119%	$21.0	99%
14	SAN DIEGO CITY	$12.1	92%	$16.8	61%	$11.1	65%
15	SAN MARCOS	$13.4	57%	$10.7	62%	$7.6	98%
16	SANTA ANA	$17.9	78%	$17.1	63%	$14.1	45%
17	SANTA CLARA CITY	$17	57%	$19.6	78%	$13.9	83%
18	SANTA CRUZ CO.RDA	$17.1	164%	$20.2	28%	$10.2	171%
19	SANTA MONICA RDA	$11.7	40%	$4.5	90%	$4.2	93%
20	SO.SAN FRANCISCO	$10.8	63%	$9.6	83%	$9	29%
21	WEST COVINA	$12.6	23%	$4.7	38%	$2.9	200%
22	YORBA LINDA	$14.7	87%	$20.2	4%	$2.7	27%

* *A percentage greater than 100 percent shows the agency spent more than the year's total revenues by also spending a portion of the Low-Mod Fund balance accrued over previous years.*

Excess Surplus (Exhibit D)

Exhibit D identifies 46 agencies that ended the reporting year with Excess Surplus that approximates $66 million. Excess Surplus is defined as the amount of unencumbered balance that exceeds the greater of: (1) $1 million dollars or (2) the combined amount of tax increment revenue deposited to the Low-Mod Fund during the preceding four fiscal years. Agencies are permitted to adjust their unencumbered balance to exclude from the calculation one or both of the following: (1) the amount of any unspent debt proceeds and (2) the difference between the fair market value and sale price of land.

Since July 1994, redevelopment agencies have been required to determine the existence of Excess Surplus on the first day of each fiscal year and annually report this information. The law (Section 33334.12) specifies administrative and financial penalties to apply, if agencies do not eliminate Excess Surplus funds within prescribed time periods. To avoid penalties, agencies must either: (1) transfer the total amount of Excess Surplus to the local housing authority within one year or (2) spend or encumber the remaining Excess Surplus within two additional years.

In 1997, at the Legislature's request, the Bureau of State Audits reviewed whether agencies were correctly calculating Excess Surplus and found many inaccuracies. Most errors resulted from agencies failing to make allowable adjustments to their unencumbered balance for unspent debt proceeds and to account for value differences between land values and sale prices.

To improve the accuracy of determining Excess Surplus, redevelopment law was amended in 1999 (Assembly Bill 634, Wildman) to require an agency's independent auditor to calculate and report Excess Surplus as part of the agency's annual audit. The annual audit report is required to be provided to both the State Controller and HCD. To date, no agencies have been reported as having Excess Surplus beyond the three (3) year time period in which penalties would apply.

Another legislative amendment, signed into law in 2001 (Senate Bill 211, Torlakson), requires that before an agency can amend pre-1994 project area plans and extend the time limit to incur debt, the agency must submit information to enable HCD to make a written determination that the agency has not accumulated Excess Surplus.

HOUSING ACTIVITIES

This section reports the results of agencies' use of funds (Low-Mod and other) for housing activities. Agencies reported assisting a total of 19,422 households, a decrease of 6 percent over the 20,686 households assisted the previous year.

Exhibits E through M display housing assistance data in a variety of ways such as by county, agency, project area, and program and/or housing project, based on agency responses to HCD's reporting forms (Schedules A-E in Appendix B). Housing activities that directly assisted eligible households, such as the number of rent subsidies or the number of units constructed or rehabilitated, etc. are reported in Exhibits E through F. Exhibit G identifies the increased inclusionary obligations for future additional affordable units within project areas. These obligations are based on the number of newly constructed units and/or substantially rehabilitated units that were developed in project areas over the reporting year. Exhibits H and I report data on households displaced and dwelling units destroyed or removed.

Exhibits J through M report "Other Housing Activities" that have an indirect or future impact on agencies' housing assistance efforts such as expenditures made for onsite and offsite improvements, housing estimated to occur over the next two years, land holdings, and use of agency funds for a homeownership bond program to match certain federal funds.

Types of Households Assisted (Exhibits E through F)

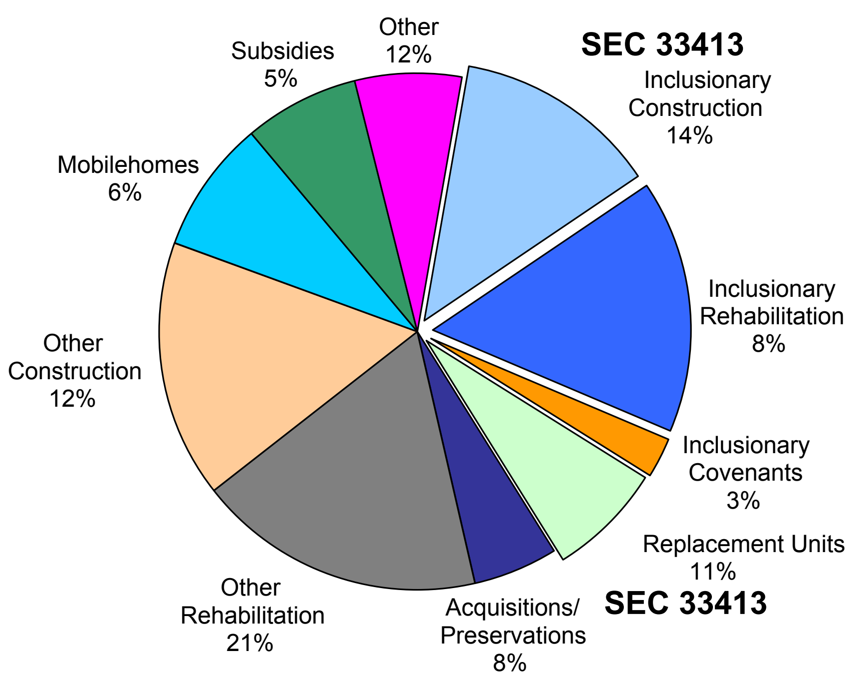
Redevelopment law restricts agencies' use of the Low-Mod Fund to "increasing, improving, and preserving" the community's supply of low-and moderate-income housing. Pursuant to Section 33080.4, agencies are required to annually report specified information to HCD such as: (1) number of elderly and non-elderly households assisted, (2) the number of very-low, low-and moderate-income households assisted with Low-Mod Funds, and (3) the number of above-moderate income households assisted with agencies' other (non Low-Mod) funds. The above information is shown at Exhibits E through Exhibit F.

Exhibit F-1 shows agencies reported assisting 7,043 elderly and 12,379 non-elderly households. By income level, agencies provided housing assistance to these households: very-low, 9,685 (50%); low, 6,023 (31%); moderate, 2,763 (14%); and, with agencies' other funds, 951 (5%) above-moderate.

Kinds of Housing Activities (Exhibits E through F)

Housing assistance activities vary from agency to agency to address the different needs within communities and project areas. Agencies report statutorily required information on HCD forms (Schedules A-E at Appendix B). Information reported on housing assistance activities ranges from developing more affordable units to subsidizing housing costs and/or providing grants to low and moderate income homeowners to help with repairs. The chart below shows all reported housing assistance activities for Fiscal Year 2001-2002.

Housing Assistance Categories



Certain housing activities trigger the replacement and inclusionary requirements of Health and Safety Code Section 33413. This section of law requires agencies to ensure, within a specified timeframe, that additional units are affordable to eligible households either because affordable units were destroyed or additional units were constructed or substantially rehabilitated within project areas. Before 1994, when Assembly Bill 1290 (Isenberg) took effect, the types of housing meeting the replacement requirements of Section 33413(a) and the inclusionary requirements of Section 33413(b) consisted of Construction and Rehabilitation. Since 1994, inclusionary requirements can be met by the following housing activities: Construction, Substantial Rehabilitation, and Acquisition of Covenants.

Number of Households Assisted by Activity (Exhibits E through F)

Statewide, agencies assisted 19,422 households this reporting year versus 20,686 households last reporting year. The table below reports the number of households assisted by housing activity. Activities are categorized according to whether assistance met the replacement and/or inclusionary requirements of Section 33413 or whether the activity represents other housing assistance. Also reflected is whether assistance was provided with Low-Mod (LMIHF) or other agency funds.

FY 2001-2002 TOTAL HOUSING ACTIVITIES AND HOUSEHOLDS ASSISTED

Section 33413 Requirement	Activity: Low-Mod Fund LMIHF	Activity: Other Funds	Total Section 33413	Other Housing Assistance	Activity: Low-Mod Fund LMIHF	Activity: Other Funds	Total Other Housing	TOTAL HOUSEHOLDS (ALL FUNDS)
INCLUSIONARY	**4,908**		**4,908**	Other Assistance	2,328	92	**2,420**	
Construction	2,760		2,760	Other Construction	1,071	1,185	**2,256**	
Subst Rehab >93	963		963	Other Subst Rehab	165	240	**405**	
Rehab <94	524		524	Other Rehab	3,372	183	**3,555**	
Acquire Covenant	661		661	Acquires/Preserves *	1,206	408	**1,614**	
REPLACEMENT	**2,130**		**2,130**	Mblhome & Parks *	950	230	**1,180**	
				Subsidy	822	132	**954**	
Total	**7,038**		**7,038**	**Total**	**9,914**	**2,470**	**12,384**	**19,422**

**Note: Activities combined: Acquisitions total 617 (391 LMIHF$, 226 Other$) and Preservations (896+101) total 997 (815 LMIHF$, 81 Other$). Mblhm Owners total 869 (428 LMIHF$, 441 Other$) and Park Owner Residents total 311 (30 LMIHF$, 281 Other$)*

Refer to Exhibits E-1 through E-14 for detailed information identifying agencies (by county, agency, and project area) and the kinds of housing assistance provided to households based on level of income. Exhibit F-1 through F-4 summarizes Exhibit E data in different ways. For example, Exhibit F-1 summarizes which agencies engaged in various activities and identifies the number of households assisted, by income category, according to activity, county of residence, and whether assistance was provided to an elderly or non-elderly household. Exhibit F-2 categorizes housing activities by area (inside or outside of project areas), and whether activity was deemed agency or non-agency assisted. Activities in Exhibit F-3 reflect those that agencies reported as other assistance or that met a Section 33413 requirement (affordable units that agencies had to replace or produce to remain affordable for at least 45 years for owner-occupied units or 55 years for renter-occupied units). Exhibit F-4 sorts activities based on whether agencies used the Low-Mod Fund or other funds.

Section 33413 Inclusionary Activities (Exhibits E 1-4, F 1-4, and G)

Inclusionary activities refer to housing units with affordability restrictions that agencies control and report as meeting the requirements of Health and Safety Code Section 33413(b), which is commonly referred to as either the inclusionary or production requirement because agencies must ensure a specified percentage of project area housing units are affordable. Section 33413(b) applies to housing that is constructed or substantially rehabilitated within project areas. Agencies are required, within ten years, to ensure additional units as affordable to low and moderate-income households and to further ensure such units remain affordable for the longest feasible time, beyond 45 years for owner occupied units or 55 years for rentals.

For project area dwelling units that agencies develop, the inclusionary percentage is 30 percent of which at least half must be affordable to very-low income households. For project area dwelling units considered non-agency developed (produced by public or private entities or persons), the inclusionary percentage is 15 percent of which at least 40 percent must be affordable to very-low income households. Housing activities agencies can use towards fulfilling their inclusionary obligation, providing other specified requirements are met, include constructing new units, rehabilitating existing units, and acquiring long term affordability covenants on multi-family units.

Prior to 1994, any kind of rehabilitation activity within project areas increased agencies' inclusionary obligation to provide more affordable units within 10 years. Assembly Bill 1290 (Isenberg, Statutes of 1993) amended the law to specify that rehabilitation must be substantial. Substantial rehabilitation is defined as an increase in the after rehabilitation value, including the value of land, of at least 25 percent.

The "2-for-1" inclusionary provision was also introduced by AB 1290. This provision allows agencies to meet their "inside project area" inclusionary housing obligation by producing two affordable units "outside" the project area for every inclusionary unit required "inside" the project area.

New Construction (Exhibit E-1)

Agencies reported a statewide total of 6,923 constructed units (that includes 1,907 replacements) among project areas (above the prior year's 6,549) but only 2,760 (40 percent) were reported as having long-term affordability restrictions to meet the inclusionary provision of Section 33413. Most of the year's inclusionary new construction was reported as non-agency developed (2,147) versus agency developed (613). All inclusionary new construction was reported as assisted with Low-Mod Funds. Inclusionary new construction benefited the following households: 1,189 very-low (46 percent), 928 low (40 percent), and 643 moderate (14 percent). Most of this construction was inside of project areas (2,101) rather than outside of project areas (659).

Rehabilitation—Pre-1994 (Exhibit E-2)

Agencies reported 611 units as having been rehabilitated, slightly more the 538 reported last year. Low-Mod Funds were used to assist 273 very-low, 331 low, and 7 moderate income households. The majority of rehabilitated units (396) were reported as non-agency developed with most (394) being inside rather than outside of project areas.

Substantial Rehabilitation—Post-1993 (Exhibit E-3)

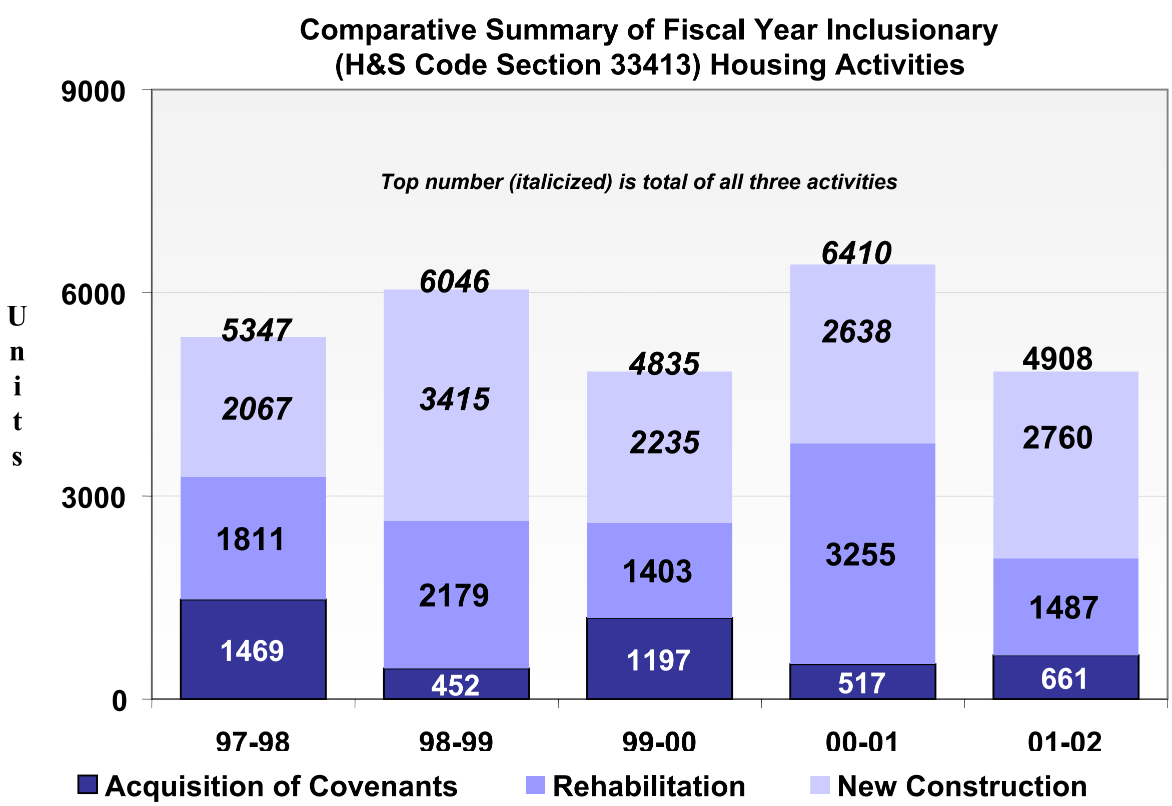
Activity reported as Substantial Rehabilitation significantly decreased as agencies reported using Low-Mod Funds to assist only 1,080 households (that includes 117 replacements) versus 2,717 in the prior year. By income category, assisted households included: 434 very-low, 568 low, and 78 moderate. Agency developed units were reported as 216 and non-agency developed units were 864. The majority (726 or 73%) of assistance was provided inside of project areas.

Acquisition of Affordability Covenants (Exhibit E-4)

Agencies can meet up to 50 percent of their inclusionary obligation by purchasing covenants on multi-family units restricting rents to affordable levels for units that are not currently affordable or not expected to remain affordable. During FY 2001-2002, agencies assisted 661 households, slightly more than the 517 reported last year. Households, by income level, represented: 419 very-low,
184 low, and 58 moderate-income. Affordability covenants purchased within project areas benefited 622 households whereas 39 were assisted outside of project areas.

Summary of All Inclusionary Housing Activities (Exhibit F 1–4)

The chart below profiles five years of inclusionary housing activities and reflects units assisted with Low-Mod Funds that have long term affordability restrictions (generally more than 30 years) meeting inclusionary requirements. Data fluctuations over the years reflect the moving time periods (10 years) in which agencies are required to fulfill the inclusionary or production obligation incurred over a particular year.



Increase in Inclusionary Obligation (Exhibit G)

For FY 2001-2002, Exhibit G reports agencies increased their inclusionary obligation and must ensure, within the next ten years, an additional 2,223 units will remain affordable for at least 45 years for owner occupied units and 55 years for renter-occupied units. Agencies' increased inclusionary obligation resulted from project area new construction (12,522) consisting of 1,250 agency developed new units and 11,272 non-agency developed new units and substantial rehabilitation (2,205) consisting of 1,346 reported as agency developed and 859 reported as non-agency developed. Inclusionary obligations incurred this year (2,223) were above last year's (1,266). Agencies' increased inclusionary obligation is relatively small due to many agencies reporting project area activity as non-agency developed triggering the 15 percent inclusionary requirement instead of the 30 percent requirement for agency-developed projects.

Section 33413 Replacement Housing Activities (Exhibits F 1-4)

Exhibit F-3 shows agencies reported 2,130 units toward meeting their replacement Section 33413(a) obligations. In the prior year, 1,512 replacement units were reported. Replacement obligations are required to be met within four years of removing dwelling units from the housing stock. Agencies reported meeting part of their replacement requirements from new construction (1,907), substantial rehabilitation (19), and rehabilitation (204) activities. Agencies developed 999 units whereas non-agency entities developed 1,131 of all replacement units.

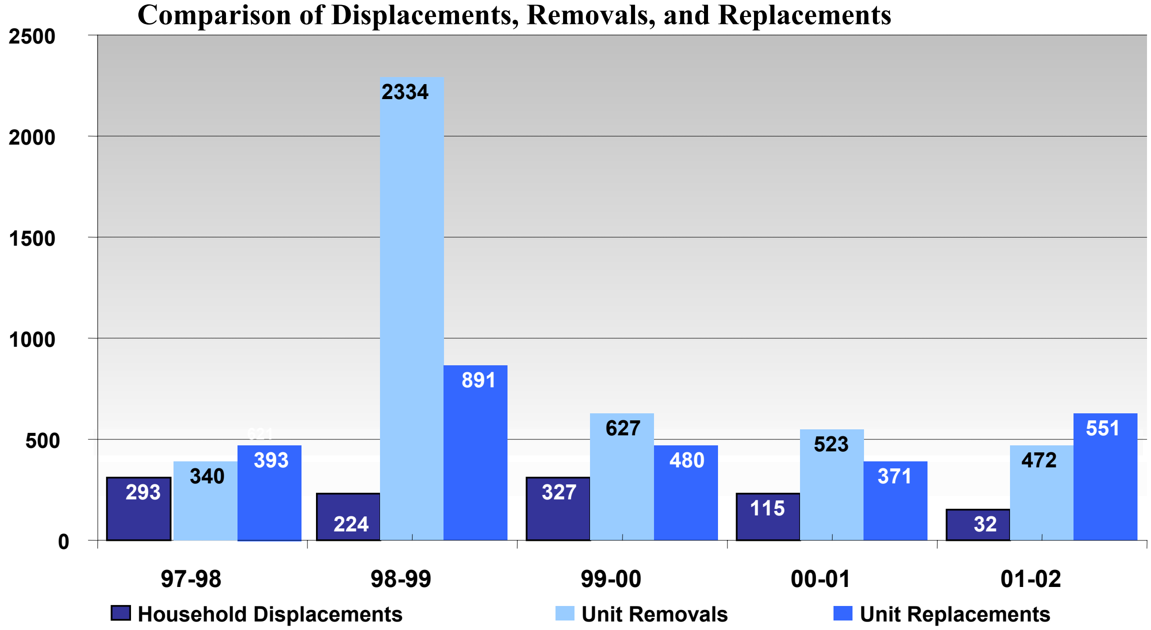
Agency developed replacement units within project areas totaled 758 compared to 241 outside of project areas. For non-agency developed replacements units, 805 were within project areas and 326 outside of project areas.

Housing Units Removed and Households Displaced (Exhibits H through I)

Section 33413(a) specifies an agency may replace destroyed or removed dwelling units with a fewer number of replacement dwelling units providing the number of bedrooms among all replacement dwelling units equal or exceed the total number of bedrooms of all destroyed or removed units. Exhibit H-1 reports 472 units were removed and Exhibit H-2 shows agencies should replace, within four years, 551 units and ensure that replacement units provide at least 790 bedrooms. Dwelling units destroyed included 58 occupied by elderly households and 414 occupied by non-elderly households.

As for households displaced over the reporting year (Exhibit I-1), agencies reported six as elderly and 26 as non-elderly households. Exhibit I-2 provides agency displacement estimates for the next reporting year indicating agencies anticipate displacing 630 households (53 elderly and 577 non-elderly). Prior to displacing households, agencies are required to develop relocation and replacement housing plans.

The chart below shows statewide displacement, removal, and replacement activity over the last five years. The large spike (FY 98/99) resulted from one agency reporting data on a closed Air Force Base.



<u>Other Housing Assistance Activities</u> (Exhibits E, F, and J through M)

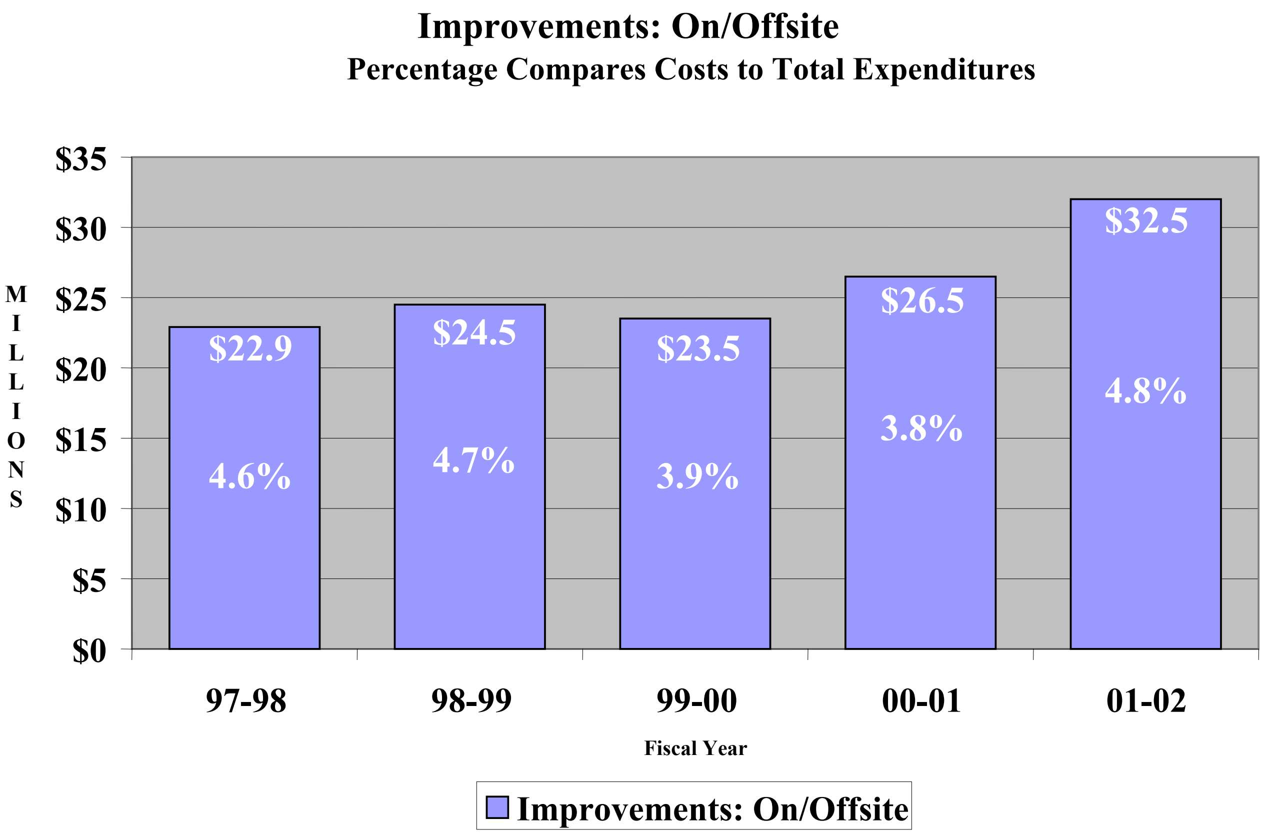
Assistance discussed excludes inclusionary and replacement activities and involves assisting households with Low-Mod Funds and/or other funds such as federal and state grants and agencies' 80 percent of tax increment not required to be set-aside for affordable housing purposes. Since agencies can use funds other than the Low-Mod Fund to assist households, including ones above the moderate income level, some activities reported in Exhibit E through Exhibit F identify above-moderate income households. The new construction and substantial rehabilitation reported as "other" activities represent units agencies did not claim for inclusionary credit, most likely because such units lacked adequate affordability restrictions.

Agencies reported providing many other (non-inclusionary or non-replacement) kinds of assistance to 12,384 households. Most (9,914) were assisted with Low-Mod Funds and the remaining (2,470) with agencies' other funds. As shown in Exhibit F-4, agencies reported using other funds to assist 951 above-moderate households (948 from new construction). Other reported kinds of activities and the number of households that benefited were: construction (2,256); substantial rehabilitation (405); rehabilitation (3,555); dwelling unit acquisitions (617); preservation of affordable units including subsidized units at risk of conversion to market-rate rents (896); mobilehome park residents (869) and mobilehome park owners/residents (311); providing subsidies (954) such as for monthly rent; and miscellaneous other (2420) such as providing small grants to assist owners with repairs.

<u>Onsite and Offsite Improvements</u> (Exhibit J)

Redevelopment law allows agencies to use Low-Mod Funds for site improvements when such improvements directly benefit affordable housing units restricted to low and moderate income occupants. Improvements must be part of a program to benefit subsidized affordable housing units or be determined by the agency as necessary to eliminate a condition jeopardizing the health or safety of persons occupying restricted affordable housing units. An example of spending Low-Mod Funds to remedy a health or safety issue would be the removal of contaminated soil near a subsidized affordable housing project.

Over the last five years, expenditures for site improvements have approximated 4 to 5 percent of agencies' total expenditures. This year, Exhibit C-6 shows agencies reported spending nearly $32.5 million ($6 million more than last year) for site improvements benefiting affordable units housing 11,788 families representing 5,614 more households than the total reported over the prior year. Improvements were reported as benefiting 468 new units, slightly more than last year (421), and 515 rehabilitated units, significantly less than the number (679) reported for FY 2000/2001 and were cited as necessary to eliminate a health or safety hazard applicable to 10,805 units, significantly more than the prior year (5,074).

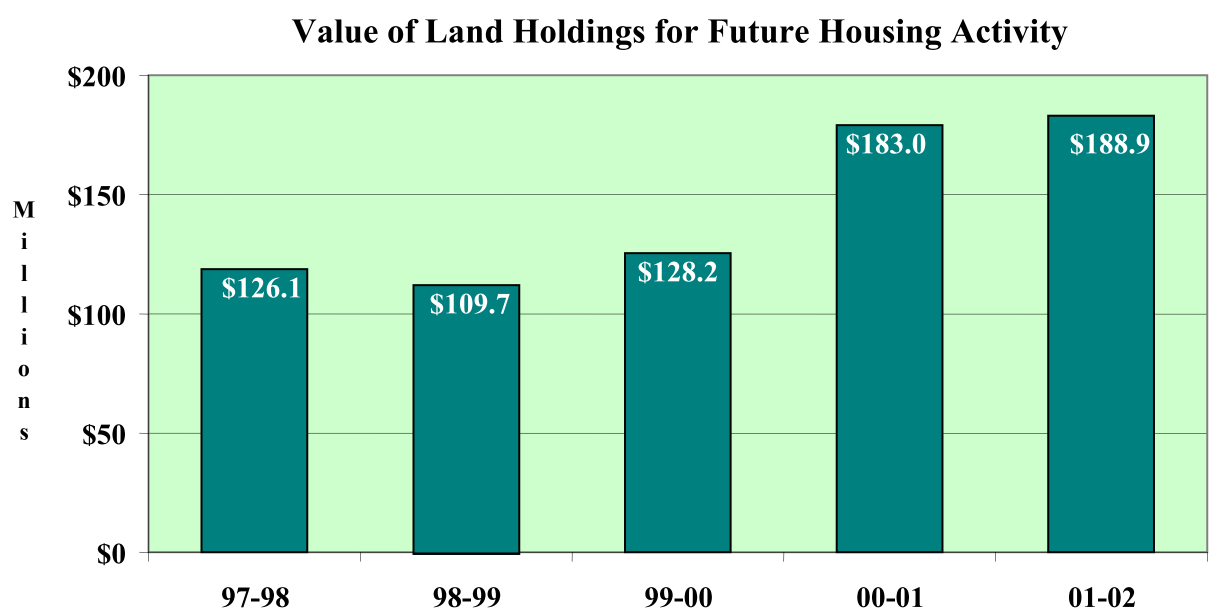


<u>Future Construction</u> (Exhibit K 1-3)

Exhibit K-1 identifies agencies' estimates of affordable units anticipated to be completed over the next two fiscal years based on executed development agreements and contracts. The financial obligations attached to these contracts are reflected as part of encumbered dollars. A total of 16,241 units are estimated to be developed to accommodate: 8,274 very-low income households, 5,128 low-income households, and 2,839 moderate-income households. As reported in Exhibit K-2, agencies expect most construction over the next two years to occur inside project areas (9,921) as opposed to outside of project areas (6,320). Last year, agencies projected more total activity (18,265), with most (56 percent) estimated to occur inside of project areas instead of outside of project areas.

Land Holdings (Exhibit L)

Exhibit L contains information reported by 94 agencies regarding specific sites, acreage, zoning, dates of acquisition, and estimated dates that affordable housing projects may begin. Land being held for future affordable housing projects total 332 sites approximating 1,035 acres (last year, 289 sites encompassed 894.4 acres). Agencies also report values of land holdings as an additional asset (refer to Exhibit C-2). The values of land holdings over the last five years are shown below.



Redevelopment law, Health and Safety Code Section 33334.16, requires agencies to initiate development activities within five years of land acquisition; however, agencies are permitted one five-year extension. Land not developed within the required time period must be sold and agencies must deposit the proceeds to the Low-Mod Fund. In 1999, Senate Bill 497 (Rainey) amended the law to require agencies' independent auditors to determine agency compliance. Auditors are required to provide their findings to the State Controller who is required to report major violations such as failure to develop or dispose of land to the Attorney General for action. For Fiscal Year 2001-2002, the State Controller reports only two agencies failed to comply with the requirement to either initiate development or sell land.

Miscellaneous Plans and Information (Exhibit M)

Certain requirements apply, if an agency uses non-Low-Mod Funds to participate in funding projects that also receive federal funding pursuant to either Title II or IV of the Cranston-Gonzolez National Affordable Housing Act, and/or provide assistance to mortgagors whose incomes exceed that of persons and families of low or moderate income. The agency shall, within two years, expend twice that sum exclusively to increase and improve the supply of affordable housing to lower income households and at least 50 percent shall benefit very low income households. Contributions of funds, (other than Low-Mod Funds) in support of the federal HOME program, approximated $11,378,217. Fifteen agencies reported using their other (non Low-Mod) funds as matching funds in support of a federal affordable housing grant program.